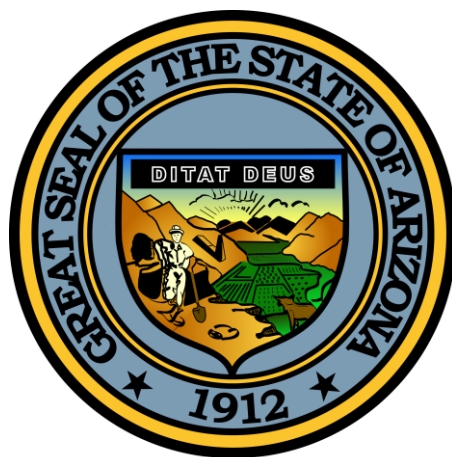


# Earned Income Tax Credit Task Force

*Empowering Low- and Moderate-Income  
Families to Gain Self-Sufficiency*

Tax Year Report Reflecting Calendar Year 2006

Compiled by the Governor's Office for Children, Youth  
and Families, Division for Women



## **Governor's Office for Children, Youth and Families**

**Irene Jacobs, Executive Director**

**1700 W. Washington St., Suite 101  
Phoenix, AZ 85007  
(602) 542-1428**

**[www.gocyf.az.gov](http://www.gocyf.az.gov)**

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## Executive Summary

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit eligible to low-income working individuals and families, created to partially balance out the weight of social security taxes, and to provide an additional reason for individuals to seek and maintain employment. A taxpayer must meet certain requirements and must file a tax return to qualify for the credit, even if his or her income is below that which mandates filing a tax return. Depending on income, EITC can be worth as much as several thousand dollars, and can boost a family's income by nearly 35 percent. EITC provides more immediate financial assistance to working individuals and families in need than any other effort.

In an effort to help Arizona families claim millions of dollars in tax refunds, Governor Napolitano created the EITC Task Force in 2003. The Task Force works to provide statewide leadership in promoting and implementing the earned income tax credit, a refundable tax credit for low-income workers.

In 2003, Governor Napolitano charged the EITC Task Force with leading a strategic effort to increase participation by low- to moderate-income Arizonans in the federal Earned Income Tax Credit Initiative. **In just three years, this effort has seen great success; the number of tax returns prepared at Volunteer Income Tax Assistance (VITA) and AARP sites has increased by 198 percent; the average EITC refund has increased by 51 percent; and the total EITC refund amount to Arizona taxpayers has increased by 81 percent.**

## **Earned Income Task Credit Background**

The IRS Web site indicates that the Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes, but also to provide an incentive to work (IRS.gov).

The EITC is one of the largest and most successful anti-poverty programs in the country. When coupled with proven financial educational strategies, the EITC has been credited with lifting more children out of poverty than any other federal aid program, and helps low to moderate income families successfully build assets. In the past, some of the reasons that many eligible families do not file for this credit is because they are unable to complete the tax forms due to lack of language skills, fear of owing money or lack of awareness about the credit. Recent efforts have targeted these obstacles and made significant progress in promoting the EITC.

Governor Napolitano established the EITC Task Force in 2003 to champion increased participation by low-to-moderate income individuals and families in the federal EITC Initiative. The Task Force currently has 49 representatives from business and non-profit communities, the IRS and Arizona Department of Revenue, as well as tribal, state, county and city governments. Members encourage recipients to utilize tax credit refunds to pay for: bills and utilities; housing down payments; tuition or job training in an effort to help the individual and support the local economy.

To increase the number of filers claiming the EITC, the Task Force developed and distributed outreach materials to inform potential filers about the EITC and filing qualifications. These materials are widely distributed throughout the state each year. Task Force members have also worked with local tribes, nonprofit agencies, businesses and city governments to build a network of trained volunteers to assist filers at VITA sites located statewide. The centerpiece of this volunteer network focuses on free tax preparation so that filers can keep all of the benefits.

## **EITC Thresholds for Qualification**

### *Income Levels to Qualify for the EITC*

#### **Tax Year 2006**

Earned Income and Adjusted Gross Income must each be less than:

- \$36,348 (\$38,348 married filing jointly) with two or more qualifying children;
- \$32,001 (\$34,001 married filing jointly) with one qualifying child;
- \$12,120 (\$14,120 married filing jointly) with no qualifying children.

#### **Tax Year 2007**

Earned Income and Adjusted Gross Income must each be less than:

- \$37,783 (\$39,783 married filing jointly) with two or more qualifying children;
- \$33,241 (\$35,241 married filing jointly) with one qualifying child;
- \$12,590 (\$14,590 married filing jointly) with no qualifying children.

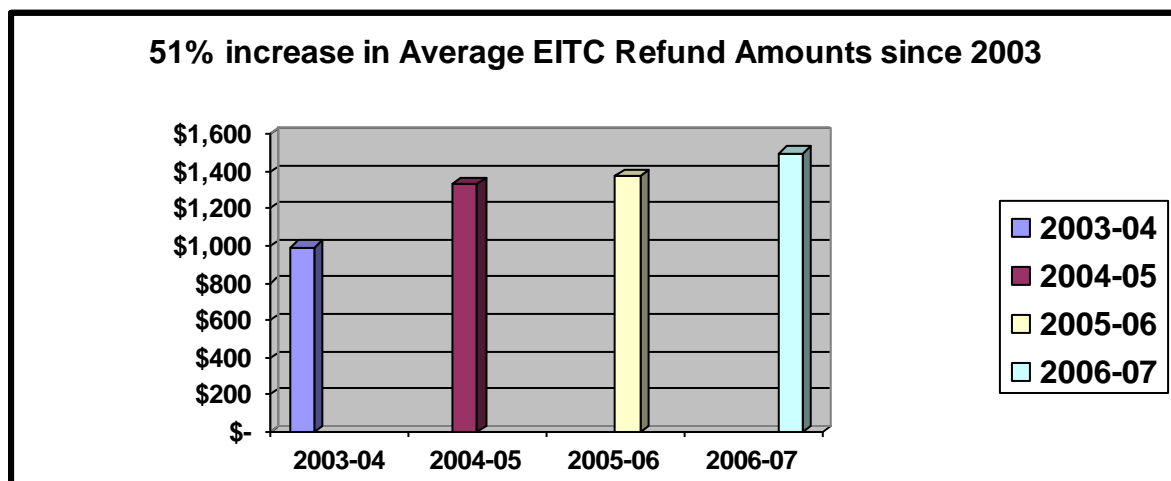
## EITC Success Statistics

### *Arizona EITC Refund Amounts*

The average EITC refund per Arizona household increased by 51 percent from 2003 calendar year taxes to 2006 calendar year taxes. The average claim per household in 2006 was \$1,499, compared to the 2003 average claim of \$994.

As displayed in the graph below, the average EITC refund amounts for the past four tax filing seasons were: \$994 in 2003-2004; \$1,334 in 2004-2005; \$1,375 in 2005-2006; and \$1,499 in 2006-2007. These increases demonstrate the successful outreach efforts of the Task Force and the effectiveness of the services provided at both Volunteer Income Tax Assistance (VITA) and American Association of Retired Persons (AARP) sites, which help seniors and low- to moderate-income individuals claim eligible credits, including the EITC.

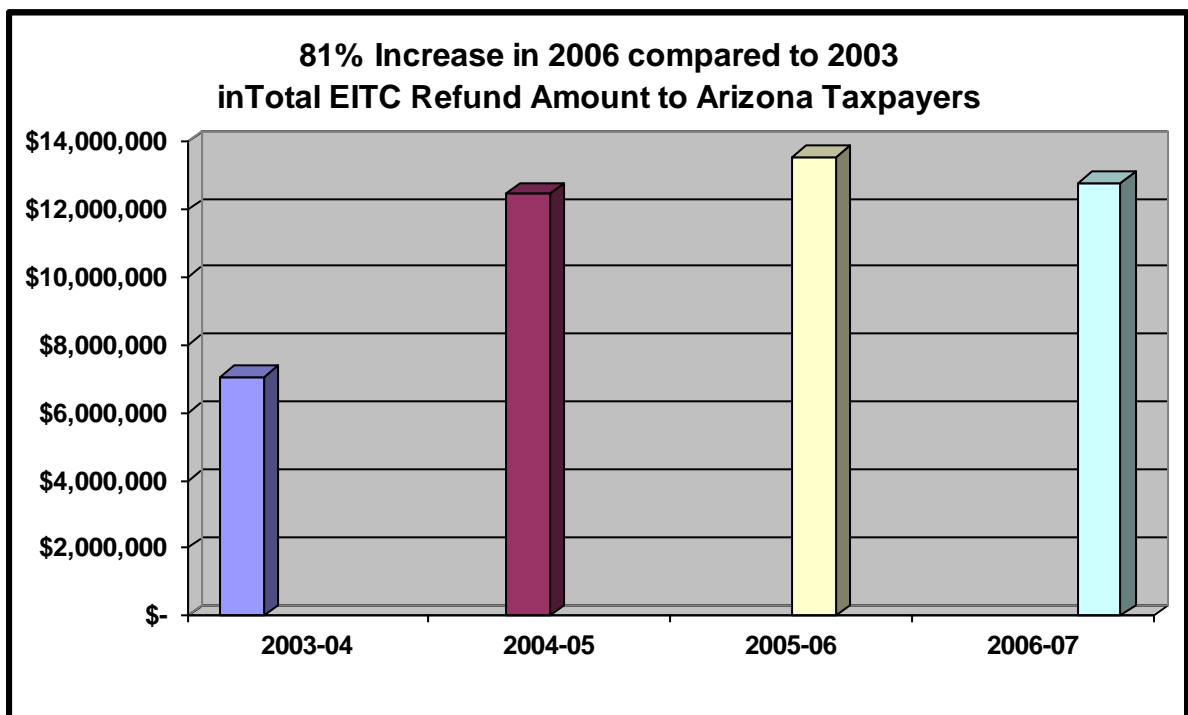
Please note that the information below is displayed in two-year increments; 2003-2004 represents tax returns for calendar year 2003, which were filed in 2004, etc.



### *EITC Refund to Arizona Taxpayers*

In 2006, the total EITC refund to Arizona taxpayers was \$12,793,718, demonstrating an 81 percent increase since the 2003-2004 tax year. This increase can be partially attributed to the successful outreach efforts of the EITC Task Force, initiated to inform more individuals about the EITC and VITA sites. The following graph shows the EITC refund amounts to Arizona taxpayers over the past four tax seasons.

Please note that the information below is displayed in two-year increments; 2003-2004 represents tax returns for calendar year 2003, which were filed in 2004, etc.



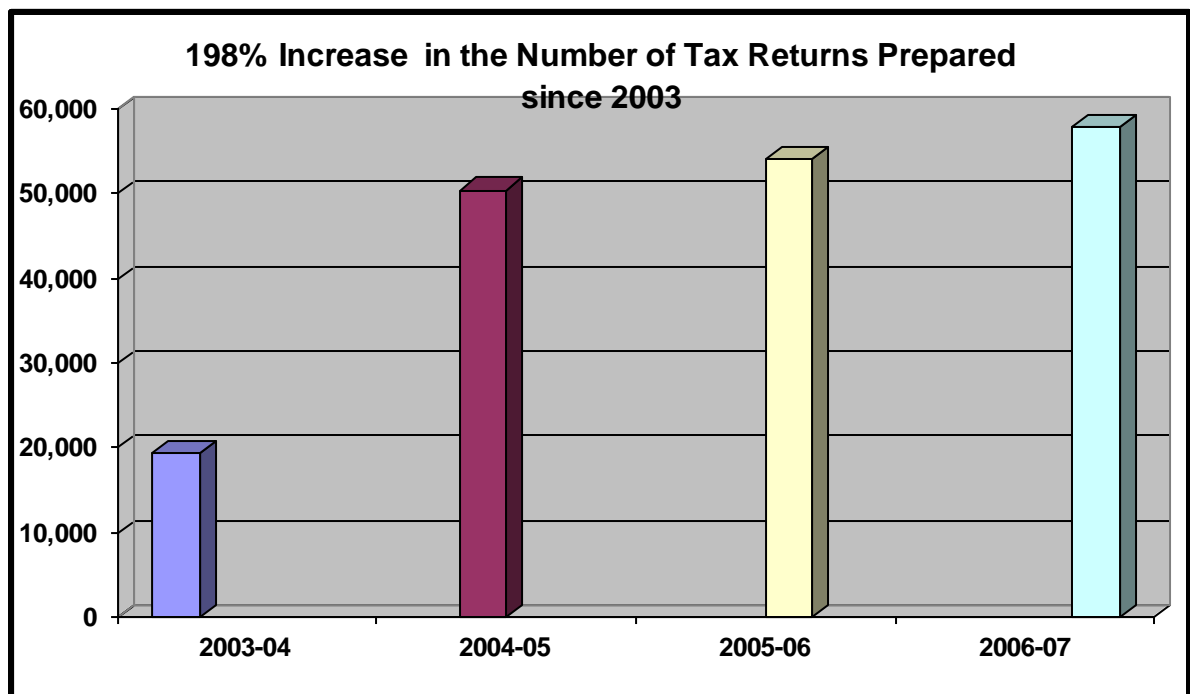


## Volunteer Assistance and Recruitment

The Volunteer Income Tax Assistance (VITA) Program offers free tax preparation services to low- to moderate-income (generally, \$40,000 and below) individuals who cannot prepare their own tax returns. Certified volunteers sponsored by various organizations receive training to help prepare basic tax returns in communities across the country. VITA sites are generally located at community and neighborhood centers, libraries, schools, shopping malls, etc. Many VITA sites offer free electronic filing.

Since 2003, the number of tax returns prepared at VITA sites in Arizona has increased by 198 percent. The number of tax returns prepared at VITA sites over the past four years has risen from 19,396 in the 2003-2004 tax year, to 57,861 in the 2006-2007 tax year. Examination of the graph below reveals a significant increase between 2003-2004 and 2004-2005, which coincides with the first year of work by the EITC Task Force.

Please note that the information below is displayed in two-year increments; 2003-2004 represents tax returns for calendar year 2003, which were filed in 2004, etc.



Note: Not all tax returns prepared at VITA sites are eligible for the Earned Income Tax Credit. Returns prepared at VITA sites may be eligible for the following credits; Earned Income Tax Credit, Education Tax Credit, Child Tax Credit and Child and Dependent Credit.

In 2007, 471 trained volunteer tax preparers at VITA sites and 831 trained volunteer tax preparers at AARP sites helped to prepare 2006 tax returns across Arizona. Volunteers play a crucial role in EITC outreach and efforts. Free tax preparation sites depend on volunteers to help working families claim every tax benefit to which they are entitled, and also to prevent them from falling prey to lenders who offer their tax money back quickly, but at a costly fee.

Community Information & Referral (CIR) assists central and northern Arizona residents to obtain access to information about the full range of health, human and emergency services provided in Arizona communities. For the 2007 and 2008 tax years, the CIR Web site will serve as the central site for EITC volunteer registration. Volunteers can sign-up online for a variety of assignments in their chosen location and find dates, times and locations for free tax-preparer training. CIR will assist in recruiting volunteers by posting needs and open positions for the initiative to a group of 4,000 individuals and organizations looking for different opportunities. CIR also aims to have recruitment messages aired on the local CBS affiliate's website and to distribute 1,000 fliers to partner organizations to help promote the EITC.

The 2007 tax year marked the seventh consecutive year that CIR partnered with the IRS to provide a statewide 24-hour Tax Preparation Assistance and EITC Hotline for people needing tax preparation assistance. In the past three tax seasons, the CIR hotline responded to 25,180 calls for tax preparation assistance and had 42,122 unique inquiry hits for EITC tax preparation site information on their website. CIR offered an automated system that allows telephone callers to obtain local tax preparation site information by entering their zip code. Arizona Public Service, Salt River Project, Southwest Gas and General Dynamics served as the Hotline sponsors.

## **EITC Task Force Member Programs and Community Support**

### *Individual Development Accounts*

Individual Development Accounts (IDAs) are emerging as one of the most promising tools to help working American families save, build assets, and enter the financial mainstream. IDA's are matched saving accounts and are similar to 401(k) plans. By offering accountholders generous matches for their own deposits, IDA's reward working families who are trying to save to buy their first home, pay for post-secondary education or start a small business.

Preliminary results from the 2005 IDA Program Survey, conducted by the Corporation for Enterprise Development (CFED), indicate that over 50 percent of IDA programs offer services that allow their clients to claim the EITC from both the state and federal governments. The EITC can be a valuable tool for asset building if the refund is deposited in a savings account or IDA.

**In the past five and a half years, 709 low- to moderate-income working families in Arizona have used IDAs for an asset purchase. IDA advocates estimate that each federal dollar invested in an IDA will yield an approximate return of five dollars to the national economy in the form of new businesses, additional earnings, new or rehabilitated homes, reduced welfare expenditures, and human capital associated with greater educational attainment** (CFED). The Assets for Arizona Institute with their partnering agencies and organizations currently have 20 active IDA programs in urban, rural and Native American communities with 497 accountholders saving for an asset purchase. Since 2006, participating Arizonans have saved \$919,611 and have leveraged those dollars to purchase assets valued at \$37,452,951.

### *Department of Economic Security - Financial Education & Asset Development Initiative*

According to the 2004 *Community Development Assessment for the State of Arizona*, approximately 14 percent of Arizona's population lives in poverty, making Arizona's poverty rate the fourteenth highest in the United States. The state has especially low rankings in the area of asset accumulation, with large percentages of its households deemed asset poor or possessing zero net worth.

The high rate of poverty and financial instability is of great concern to the Arizona Department of Economic Security (DES), who initiated the Financial Literacy and Asset Development Project to help address this issue. This project aims to help families move from poverty to self-sufficiency through employment and supportive services. To increase incomes and improve the personal financial stability of both the families that DES serves and of employees, DES led an aggressive effort in 2007 to promote financial education and asset development.

Efforts taken to achieve these outcomes included: creating five VITA sites within existing DES offices where low-income families and DES employees can have their taxes prepared at no charge; promoting VITA sites and the EITC to DES clients and employees; equipping DES clients and employees with the knowledge and skills required to become financially independent through training and collaboration with community partners; and coordinating with financial institutions to provide financial services and checking accounts.

### *City of Phoenix 2006-2007 EITC Campaign*

The City of Phoenix launched a multi-faceted effort to promote awareness of the EITC Program and the availability of free tax-filing services through promotional materials, media alerts and public forums during 2006-2007. A broad-range of informational materials was developed in both English and Spanish and distributed through a network of over 80 community groups that partner with EITC-eligible people on a daily basis. Additionally, major utility companies and local corporations helped distribute information on the EITC/VITA to over two million area residents.

In addition to marketing efforts to the general population, the campaign included six target groups: monolingual Spanish-speaking residents, people with disabilities, homeless persons, military veterans, refugees, and Native Americans. For the third consecutive year, the City partnered with UniVisión to conduct a week-long EITC awareness effort which culminated in a six-hour telethon where over 1,200 viewers called seeking information about EITC.

Highlights of the campaign, based on results compiled by the IRS, include:

- Over 6,635 households received more than \$7 million in tax refunds at 28 free tax preparation sites managed by the City of Phoenix, community groups, and the American Association of Retired Persons (AARP).
- Families saved \$2.1 million in transaction costs.
- Eight new sites produced nearly over \$1.3 million in federal refunds. Four faith-based communities produced over \$1.4 million in federal refunds.
- The City of Phoenix EITC Campaign was chosen by the IRS and the National Disability Institute - Real Impact Tour as one of 13 cities to promote EITC to people with disabilities.
- The City of Phoenix was the only city nationwide that received a perfect score, a 100 percent accuracy of tax filings during a surprise audit visit conducted by the IRS.

Building upon the successes of the City's EITC and Financial Education efforts, the City launched its first *Building Prosperity* Campaign in partnership with Arizona Saves in October 2007. The city-wide campaign focused on resources,

information and best practices to assist families build sustainable self-sufficiency through proven money management programs.

#### *Catholic Community Services of Southern Arizona - Southwest Border Initiative*

Catholic Community Services of Southern Arizona (CCS) utilized funding provided by the Arizona Community Foundation (ACF) and the Annie E. Casey Foundation to effectively address the challenges of recruiting and training volunteers at tax preparation sites. For the 2006-2007 tax year, CCS initiated specialized volunteer training with the IRS, and established an EITC Task Force in each county abutting the Mexico border. Each local task force was then trained to collaborate with residents and its local community foundation to recruit volunteers and to develop strategies to reach low-income families. Future objectives for this effort will involve continued efforts to promote the EITC and expansion of VITA sites along the border and in rural areas of Southern Arizona.

During the 2006 tax season, the program operated sites in Cochise, Pima, Santa Cruz and Yuma Counties and successfully:

- Increased the number of tax returns filed by 54 percent, bringing \$3,218,326 in federal refunds into the local economy, including \$1,719,902 in EITC dollars.
- Provided financial education to 297 individuals through training and literature.
- Provided individual tax identification number services to 283 individuals.
- Operated a low-income tax clinic to assist individuals with IRS-related issues.

#### *United Way of Tucson and Southern Arizona - EITC Program*

This program is overseen by the EITC Task Force of Tucson and Southern Arizona, which is comprised of over 35 non-profit, business and governmental organizations that came together in 2003 to address critical needs of Pima County families. The Task Force's mission is to help hard-working families become financially stable by providing free tax services in hopes that they will claim all tax credits for which they are eligible. Task Force work also promotes asset development opportunities including financial education, savings accounts and IDA's.

Statistics reflective of the past four years demonstrate:

- 10,462 tax returns have been filed at VITA sites.
- \$5,948,776 in EITC refunds was returned to the community.
- \$11,902,257, overall, was allocated in federal refunds.
- 433 volunteers have participated in the program and contributed to it's success

- In 2006, the Tucson EITC Task Force piloted an asset-building program in which 40 Arizona Saves VITA Wealth Coaches from partnering organizations and companies were trained to discuss saving and credit building opportunities with taxpayers at the VITA sites.

## Participating Agencies and Businesses

*The following list includes the organizations, agencies and businesses that participate on the EITC Task Force:*

Governor's Office for Children, Youth & Families AZ Association for Retired Persons AZ Community Action Association AZ Department of Economic Security AZ Community Foundation AZ Department of Revenue AZ Head Start Association Arizona SAVES ACORN Arizona Public Service Bank of America Boys and Girls Clubs Catholic Community Services of Southern AZ Children's Action Alliance Cities of: Avondale, Glendale, Mesa, Phoenix, Scottsdale, Chandler, & Tempe Collaboration for a New Century Community Information and Referral Community Legal Services Diane Demangone Bennett Ltd. Fresh Start Women's Foundation Gila River Indian Community Internal Revenue Service	Intertribal Council of Arizona Maricopa Associations of Government Mesa Community Action Network Money Management/Consumer Credit Counseling Morris Institute for Justice NEDCO Economic Development Corporation Pinnacle West Progress Through Business Qwest Salt River Project Self-Employment Loan Fund Social Venture Partners Arizona Southwest Gas Southwest Human Development Tempe Community Council United Way of Tucson & Southern Arizona Valley of the Sun United Way Vanguard Group VISTA – Volunteers in Service to America Volunteer Center of Maricopa County Wells Fargo
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### *Corporate Support*

Many local businesses have provided valuable support to the EITC initiative through donations and promotion of related opportunities. These corporations understand how the initiative can benefit their business, their employees and the state's economic prosperity, and are willing to assist either financially, in-kind or with staff volunteer time. An example of this type of donation is demonstrated by APS and SRP, who have covered the annual printing costs for 200,000 EITC brochures; in 2007 Southwest Gas also contributed to these costs. The EITC would not have exhibited such great success without the generosity of local corporate partners.

## **Next Steps**

The Governor's EITC Task Force will continue to work to increase participation in the EITC program in the 2008 tax year. The Task Force is increasing its focus on outreach, volunteer recruitment and training, asset building, financial education and evaluation. There will also be an increased focus on building capacity around the state through introduction of additional tax preparation sites, in order to reach more low-income families in rural areas of the state. Currently, the Arizona Department of Economic Security (DES) is working to utilize their offices around the state as VITA sites so that free tax preparation will be available to DES clients.